Summary of U.S. Balance of Payments, 1970

Balance of Payments Accounts

The Balance of Payments Accounts are a double-entry record of goods, services, and financial transactions between United States and foreign residents. Because it is based on double-entry bookkeeping principles, the balance of payments always balances in the sense that receipts equal payments. The double-entry nature of the balance of payments is illustrated on the lefthand side of the table on the next page. This accounting balance must not be confused, however, with a meaningful economic balance, because the economic behavior underlying some of these transactions may not be sustainable. For example, the receipt of $2.2 billion in 1970 from the sale of convertible currencies (IV.4.c) can only continue as long as the United States' stock of convertible currencies lasts.

There are two officially recognized measures of the economic balance of payments: the Liquidity Balance and the Official Settlements Balance. They represent alternative ways of arranging the balance-of-payments accounts, and are shown on the righthand side of the table. In recent years the appropriateness of both methods of measurement has been questioned, because temporary factors have obscured more basic economic trends. These measurement problems caution one not to rely solely on summary statements about the balance of payments of a reserve currency country like the United States.

The accounts are divided into four categories: Goods and Services, Private Capital, Government, and Other. These accounts are of course, interrelated; an export of goods can be financed by an import of goods, private capital, a Government loan or grant, or by a private transfer.

(I) **Goods and Services** — The surplus of receipts over payments in the goods and services account increased to $3.7 billion in 1970 from $2.0 billion in 1969 and $2.5 billion in 1968. A reduced rate of U.S. economic expansion in late 1969 and 1970 slowed the rate of import growth, while continuing strength in foreign economic activity encouraged export growth. In addition, a faster rate of price increase of internationally traded goods manufactured by foreigners, and a slower rate of price increase of internationally traded goods manufactured by U.S. residents, were also conducive to an improved goods and services balance in 1970. Merchandise exports rose 15 per cent, or $5.5 billion, to $42 billion while merchandise imports rose 12 per cent, or $4.1 billion, to $39.9 billion in 1970 (I.1). There was little change in the services account surplus from the preceding year (I.2).

(II) **Private Capital** — A larger deficit on capital account in 1970 offset the increased surplus on goods and services account. The private capital balance was in deficit by $2.6 billion, compared to a deficit of $1.3 billion in 1969 and a surplus of $1.6 billion in 1968. The primary reason was continuing net long-term capital outflows, particularly direct investment. Direct investment by U.S. corporations (mainly plant and equipment expenditures for their foreign affiliates) was $4 billion in 1970, $.9 billion higher than in 1969 (II.1.a). Portfolio investment resulted in a net capital inflow of $1.3 billion in 1970, slightly less than in the previous year (II.1.b).

(III) **Government** — The net outflow of government loans, grants, and transfers was slightly lower in 1970 than in 1969. Special liabilities (net sales of $.5 billion of nonconvertible U.S. Treasury securities to foreign official institutions) produced an offsetting inflow of funds (III.2), and thereby lowered the government capital deficit in 1970 from $4.1 billion to $3.6 billion.

(IV) **Other** — Private transfers (IV.1) represent gifts and similar payments by American residents to foreign residents. The allocation of special drawing rights (IV.2.) represents the receipt of a new international monetary reserve asset that can be used in settling international accounts. Errors and Omissions (IV.3) is the statistical discrepancy between all specifically identifiable receipts and payments. The significance of this item is discussed below. Changes in U.S. Reserve Assets (IV.4) represent official transactions of the United States Government with foreign governments and the International Monetary Fund (IMF). The $2.5 billion decrease in reserve assets (mainly a decrease in convertible currencies) is recorded with a plus sign because the United States received dollars when foreign governments exchanged their dollar holdings in order to reacquire their national currencies. Special drawing rights are analogous to any other reserve asset; a minus sign implies an addition to the stock of reserve assets. Changes in U.S. Liquid Liabilities (IV.5) represent increased foreign holdings of liquid dollar liabilities of U.S. banks and the Treasury. The major difference between the Liquidity and the Official Settlements Balances is in the different categorizing of U.S. Liquid Liabilities.

Balance of Payments Measures

The Net Balance columns show the source and overall size of the deficit or surplus, while the Financing columns show how the deficit is financed or the surplus is disposed.

Liquidity Balance — The underlying assumption about economic behavior is that all foreign liquid dollar holdings (IV.5), both private and official, are a potential claim on United States reserve assets. The liquidity balance in 1970 was in deficit by $3.8 billion (including the allocation of SDR), compared to a $7.0 billion deficit in

1969 and a $.1 billion surplus in 1968. Much of the improvement in 1970 represented the absence of factors which enlarged the liquidity deficit in 1969. With the absence of tight money conditions in the U.S., the removal of some interest rate ceilings on domestic deposits, and a current yield on short-term money market paper well below remaining ceilings, U.S. banks were no longer forced to turn to the Eurodollar market where their branches could bid freely for funds and transfer them to the home office as nondepository advances not subject to the usual cash reserve requirements. Additional reserves and sources of nondeposit funds were available in the United States to help banks meet a reduced loan demand in 1970. As U.S. banks repaid $6.3 billion of liabilities to their foreign branches in 1970, liquid claims on the United States were reduced. Simultaneously, errors and omissions, which had picked up some of the unrecorded Eurodollar flows which were outside the normal Department of Commerce reporting channels, declined from an outflow of $2.8 billion to an outflow of

U. S. BALANCE OF PAYMENTS, 1970*

(In Billions of Dollars)

Transactions	Balance of Payments Accounts			Balance of Payments Measures			
				Liquidity Balance		Official Settlements Balance	
	Receipts	Payments	Balance	Net Balance	Financing of Net Balance	Net Balance	Financing of Net Balance
I. Goods and Services	**63.0**	**59.3**	**+ 3.7**	**+ 3.7**		**+ 3.7**	
1. Merchandise Trade (goods)	42.0	39.9	+ 2.2				
2. Services	21.0	19.4	+ 1.6				
a. Military	1.5	4.8	− 3.4				
b. Investment Income	9.6	5.1	+ 4.5				
c. Travel	2.3	3.9	− 1.6				
d. Other	7.5	5.6	+ 1.9				
II. Private Capital	**3.8**	**6.4**	**− 2.6**	**− 2.6**			
1. Long term	3.1	5.3	− 2.2				
a. Direct Investment	.9	4.0	− 3.1			− 3.1	
b. Portfolio Investment	2.2	.9	+ 1.3			+ 1.3	
c. Bank and Other Loans (Net)	.0	.4	− .4			+ .4	− .8
2. Short term	.7	1.1	− .4			− .4	
III. Government	**1.8**	**5.4**	**− 3.6**	**− 3.6**			
1. Loans	1.3	3.3	− 2.0			− 2.0	
2. Special Liabilities**	.5		+ .5				+ .5
3. Grants and Transfers		2.1	− 2.1			− 2.1	
IV. Other							
1. Private Transfers		.9	− .9	− .9		− .9	
2. Allocation of Special Drawing Rights (SDR)	.9		+ .9	+ .9		+ .9	
3. Errors and Omissions		1.3	− 1.3	− 1.3		− 1.3	
4. Changes in U.S. Reserve Assets	3.4	.9	+ 2.5		+ 2.5		+ 2.5
a. Gold (outflow is receipt)	.8		+ .8				
b. Special Drawing Rights (SDR)		.9	− .9				
c. Convertible Currencies	2.2		+ 2.2				
d. I M F Gold Tranche	.4		+ .4				
5. Changes in U.S. Liquid Liabilities	7.8	6.4	+ 1.4		+ 1.4		
a. Foreign Official Holders	7.6		+ 7.6				+ 7.6
b. Foreign Private Holders		6.4	− 6.4			− 6.4	
c. International Organizations Other than I M F	.2		+ .2			+ .2	
Total	80.6	80.6	.0	− 3.8	+ 3.8	− 9.8	+ 9.8

*Preliminary

**Certain non-liquid liabilities to foreign official agencies.

Note: Figures may not add because of rounding.

$1.3 billion, a figure much closer to historical levels. An increase in special liabilities, which is recorded as a capital inflow, improved the liquidity balance of $.5 billion in 1970 compared to a reduction of $.2 billion in 1969, which was recorded as an outflow. The sources of improvement in the liquidity balance in 1970 indicate there has been little fundamental change in the liquidity position in the past two years, even though the recorded liquidity balances fluctuated widely.

Official Settlements Balance — The underlying assumption about economic behavior is that only official holdings of dollars represent a meaningful potential claim on U.S. reserve assets. The official settlements balance was in deficit by $9.8 billion (including the allocation of SDR) in 1970 compared to a surplus of $2.7 billion in 1969 and a surplus of $1.6 billion in 1968. In 1968 and 1969 the rapid increase in Eurodollar borrowings by U.S. banks resulted in a drain of dollar holdings from foreign central banks as foreign private holders converted local currencies into dollars at their central bank and deposited them in institutions abroad. Foreign central banks tried to rebuild their dollar position by selling gold to the United States and drawing dollars from the International Monetary Fund. In 1970, when monetary conditions at home and abroad induced U.S. banks to repay to their foreign branches many of their Eurodollar borrowings, foreign private holders presented the dollars to their central banks for conversion back into local currencies. Foreign central banks financed the official settlements deficit in 1970 primarily by accumulating $7.6 billion of liquid claims on the United States. Only $2.5 billion of the deficit was financed by drawing on U.S. reserve assets, and $.5 billion by special liabilities. As with the liquidity balance, the shift in the official settlements balance between 1969 and 1970 was the result of the reversal of Eurodollar flows, and reflected little basic change in the underlying strength of the official U.S. external position.